

INDIVIDUAL ENTITY AUDIT REPORT

**IDAHO DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND**

For the Fiscal Years Ended June 30, 2000 and 2001

Agency 245/Report 1470

Presentation by the

LEGISLATIVE SERVICES OFFICE

SERVING IDAHO'S

CITIZEN LEGISLATURE



LEGISLATIVE SERVICES' MISSION STATEMENT

The mission of the Legislative Services Office is to provide efficient, nonpartisan support services to Idaho's citizen legislators, to carry out legislative policies so as to strengthen the legislature's management as a separate branch of government and to assist the legislature in carrying out its constitutional responsibilities to the highest standards of integrity and professional excellence. (Approved by the Legislative Council, January 20, 1994.)

LEGISLATIVE AUDITS' CHARGE

Legislative Audits, a division of Legislative Services, is charged by the Legislative Council to provide a financial audit of the statewide annual financial report prepared by the State Controller, as required by Idaho Code § 67-429. In addition to special reports and requested studies, Legislative Audits produces three types of audit reports and two types of management reports (described below) for the Joint Finance-Appropriations Committee and other interested parties. These audits, reports, and studies, which vary in scope, provide information for oversight of State finances for the legislature, government entities, and the public, as well as satisfying federal audit requirements.

DESCRIPTION

LEVEL OF SCRUTINY

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

Our opinion as to the fairness of presentation of the annual statewide financial statements; a reference to our report on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, and grants issued under separate cover in the State's Single Audit.

STATEWIDE SINGLE AUDIT REPORT

Our opinion on the schedule of federal award expenditures in relation to the general-purpose financial statements taken as a whole; a report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards; a report on compliance with requirements applicable to each major program, and on internal control over compliance in accordance with OMB Circular A-133 (Audits of States, Local Governments, and Non-Profit Organizations); recommendations to improve the State's financial/accounting system; and recommendations and questioned costs related to federal awards. In addition, the report includes the State's general-purpose financial statements and the related opinion thereon.

INDIVIDUAL ENTITY AUDIT REPORT

Our opinion on the fairness of presentation of the entity's financial statements; a report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards; if applicable, a report on compliance with requirements of each major program, and on internal control over compliance in accordance with OMB Circular A-133.

MANAGEMENT REPORT ON FINANCIAL PROCEDURES

A report based on specific procedures applied to the financial segments material to the statewide financial statement and an internal control review of those financial segments not deemed material to the statewide financial statements, or an audit of a major federal grant. Findings and recommendations are included, if applicable, to improve policies, procedures, compliance, controls, and the entity's overall efficiency.

MANAGEMENT REPORT ON INTERNAL CONTROL

A cyclical report highlighting the entity's internal control with findings and recommendations, if applicable, to improve the system to prevent errors, omissions, misrepresentations, oversights, and fraud, thus protecting State resources.

FOREWORD

PURPOSE OF AUDIT

Our fiscal/compliance audit of the Idaho Department of Environmental Quality, Clean Water State Revolving Fund was made to determine:

1. the adequacy and accuracy of the fiscal records and the reliability of the internal control system in order to issue an opinion on the fairness of the accrual financial statements;
2. the degree of compliance with various State and federal requirements affecting the fiscal operations of the Fund; and
3. areas in the financial operations that could be improved.

SCOPE OF AUDIT

We examined the financial operations of the Fund for the fiscal years ended June 30, 2000 and 2001.

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the fiscal/compliance section of the *Government Auditing Standards* published by the U.S. General Accounting Office (GAO).

Information contained in this report was gathered from accounting and administrative records. We also interviewed Department personnel.

AUDIT AUTHORIZATION

Reported to the Joint Finance-Appropriations Committee as directed by the Legislative Council of the Idaho Legislature, authorized by Idaho Code § 67-429.

ASSIGNED STAFF

Joe Austin, CPA, Staff Auditor

ADMINISTRATION AND TECHNICAL REVIEW

Ray Ineck, CGFM, Supervisor, Legislative Audits
Charles Lindeen, CPA, CFE, Managing Auditor

GRAPHIC LOGISTICS

Rande Trueax

TABLE OF CONTENTS

Executive Summary	1
Agency Response	4
<u>FINANCIAL STATEMENTS</u>	
Independent Auditor's Report Unqualified Opinion on Financial Statements	5
Exhibit A – Balance Sheet	7
Exhibit B – Statement of Revenues, Expenses, and Changes in Retained Earnings	8
Exhibit C – Statement of Cash Flows	9
Notes to Financial Statements	10
Independent Auditor's Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	18
<u>SUPPLEMENTAL INFORMATION</u>	
Exhibit D – Balance Sheet - Program Basis	20
Exhibit E – Balance Sheet - Program Basis	21
Notes to Supplemental Information	22
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with <i>OMB Circular A-133</i>	24
Appendix	26



EXECUTIVE SUMMARY LEGISLATIVE AUDITS

IDAHO DEPARTMENT OF ENVIRONMENTAL QUALITY CLEAN WATER STATE REVOLVING FUND

PURPOSE AND SCOPE – We have audited the financial statements of the Idaho Department of Environmental Quality, Clean Water State Revolving Fund for the fiscal years ended June 30, 2000 and 2001, in accordance with auditing standards generally accepted in the United States of America. The purpose of our audit is to determine if the Clean Water State Revolving Fund's financial statements are materially accurate and reliable, and that the Department complied with laws and regulations affecting the fiscal operations of the Fund. The U.S. Environmental Protection Agency (EPA) requires a separate annual financial and compliance audit of the Fund.

CONCLUSION – We conclude that the Fund's financial statements are materially accurate and reliable, and fiscal operations materially comply with related laws and regulations. As a result, we issued an unqualified opinion on the Fund's financial statements.

FINDINGS AND RECOMMENDATIONS – There are no findings and recommendations in this report, nor were there any findings and recommendations in the prior report.

AGENCY RESPONSE – The Department has reviewed the report and is in general agreement with its contents.

FINANCIAL SUMMARY – The Fund is financed by grants from the U.S. EPA and State matching funds. The Fund is used to provide loans to municipalities at reduced rates to finance construction of publicly owned wastewater pollution control facilities. The EPA requires a separate annual financial and compliance audit of the Fund. The financial activity of the Fund for fiscal years ended June 30, 2000 and 2001 is summarized as follows:

Clean Water State Revolving Fund – Balance Sheet

ASSETS		
	June 30, 2000	June 30, 2001
<u>Current Assets</u>		
Cash	\$37,465,393	\$57,129,409
Loans Receivable	1,282,494	1,416,399
Interest Receivable – Loans	951,789	754,219
Other Receivables	66,671	416,683
Total Current Assets	<u>\$39,766,347</u>	<u>\$59,716,710</u>
<u>Long Term Assets</u>		
Loans Receivable	\$51,503,701	\$46,176,543
Interest Receivable – Loans	82,349	0
Equipment (cost \$14,553 – 100% depreciated)	0	0
Total Long Term Assets	<u>\$51,586,050</u>	<u>\$46,176,543</u>
TOTAL ASSETS	<u><u>\$91,352,397</u></u>	<u><u>\$105,893,253</u></u>
LIABILITIES AND FUND EQUITY		
<u>Current Liabilities</u>		
Miscellaneous Payables	\$17,087	\$19,075
Due to DEQ Fund	28,666	34,329
Total Current Liabilities	<u>\$45,753</u>	<u>\$53,404</u>
<u>Fund Equity</u>		
Contributions from EPA	\$68,286,095	\$77,728,220
Contributions from State	13,657,219	15,545,644
Retained Earnings	9,363,330	12,565,985
Total Fund Equity	<u>\$91,306,644</u>	<u>\$105,839,849</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$91,352,397</u></u>	<u><u>\$105,893,253</u></u>

Clean Water State Revolving Fund
Income Statement of Revenues, Expenses, and Changes in Retained Earnings

	FY 00	FY 01
<u>Revenues</u>		
Interest Earned – Loans	\$1,551,415	\$856,277
Interest Earned – Fund Balance	1,708,738	2,680,339
Total Revenues	<u>\$3,260,153</u>	<u>\$3,536,616</u>
<u>Expenses</u>		
Personnel Costs	\$245,114	\$218,491
Indirect Expenses	96,070	85,042
Other Expenses	31,493	30,428
Total Expenses	<u>\$372,677</u>	<u>\$333,961</u>
Net Revenue	<u><u>\$2,887,476</u></u>	<u><u>\$3,202,655</u></u>

OTHER ISSUES – We discussed other less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Department of Environmental Quality, Clean Water State Revolving Fund, the U.S. Environmental Protection Agency, and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We thank the Director, C. Stephen Allred, and his staff for their assistance and cooperation given to us during this audit.

QUESTIONS CONCERNING THIS AUDIT SHOULD BE DIRECTED TO:

Ray Ineck, CGFM, Supervisor, Legislative Audits

Charles Lindeen, CPA, CFE, Managing Auditor

April 30, 2002

Unqualified Opinion on
Financial Statements

Independent Auditor's Report

C. Stephen Allred, Director
Idaho Department of Environmental Quality
Statehouse Mail

We have audited the accompanying balance sheet (Exhibit A) of the Idaho Clean Water State Revolving Fund as of June 30, 2000 and 2001, and the related statements of revenues, expenses, and changes in retained earnings and cash flows (Exhibits B and C) for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note #1, these statements were prepared following guidelines and note disclosures prescribed by the U.S. Environmental Protection Agency. These guidelines follow generally accepted accounting principles, except that certain note disclosures are not required.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Idaho Clean Water State Revolving Fund, as of June 30, 2000 and 2001, and the results of its operations and cash flows for the years then ended in conformity with guidelines issued by the U.S. Environmental Protection Agency described above and in Note #1.

As discussed in Note #1 to the financial statements, the financial statements referred to above are intended to present the financial position and the results of the operations of the Idaho Clean Water State Revolving Fund, a component of the State of Idaho. These statements are not intended to present the financial position or results of operations for the Idaho Department of Environmental Quality, of which the Idaho Clean Water State Revolving Fund is a part.

In accordance with generally accepted auditing standards, we have also audited the Fund's supplemental program basis balance sheet, as of June 30, 2000 and 2001. As described in the Notes to Supplemental Information, the supplemental program basis balance sheet has been prepared by management to present relevant financial information that is not provided by the basic balance sheet and is not intended to be a presentation in conformity with generally accepted accounting principles. Financial information included relates to assets, liabilities, and contributed capital for loan commitments. The supplemental program basis balance sheet does not purport to present the financial position of the Fund as a whole. Furthermore, amounts ultimately realized as contributed capital and disbursed as loans by the Fund from State and federal sources may vary significantly from the program basis amounts presented. In our opinion, the supplemental program basis balance sheet presents fairly, in all material respects, the information set forth therein as described in the Notes to Supplemental Information.

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 30, 2002, on our consideration of the Idaho Clean Water State Revolving Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Very truly yours,

Charles Lindeen, CPA, CFE
Legislative Audits

**STATE OF IDAHO - DEPARTMENT OF ENVIRONMENTAL QUALITY
 CLEAN WATER STATE REVOLVING FUND
 BALANCE SHEET
 AT JUNE 30, 2000 AND 2001**

EXHIBIT A

ASSETS		
	<u>June 30, 2000</u>	<u>June 30, 2001</u>
<u>Current Assets</u>		
Cash	\$37,465,393	\$57,129,409
Interest Receivable - Fund Balance	66,671	416,683
Interest Receivable - Loans	951,789	754,219
Loans Receivable	1,282,494	1,416,399
Total Current Assets	<u>\$39,766,347</u>	<u>\$59,716,710</u>
<u>Long Term Assets</u>		
Interest Receivable - Loans	\$82,349	\$0
Loans Receivable	51,503,701	461,765,423
Total Long Term Assets	<u>\$51,586,050</u>	<u>\$461,765,423</u>
 TOTAL ASSETS	 <u><u>\$91,352,397</u></u>	 <u><u>\$521,482,133</u></u>
 LIABILITIES AND FUND EQUITY		
<u>Current Liabilities</u>		
Accounts Payable	\$108	\$186
Payroll Payable	12,163	13,503
Indirect Payable	4,816	5,386
Due to DEQ Fund	28,666	34,329
Total Current Liabilities	<u>\$45,753</u>	<u>\$53,404</u>
<u>Fund Equity</u>		
Contributions from EPA	\$68,286,095	\$77,728,220
Contributions from State	13,657,219	15,545,644
Retained Earnings	9,363,330	12,565,985
Total Fund Equity	<u>\$91,306,644</u>	<u>\$105,839,849</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u><u>\$91,352,397</u></u>	 <u><u>\$521,482,133</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF IDAHO - DEPARTMENT OF ENVIRONMENTAL QUALITY

EXHIBIT B

CLEAN WATER STATE REVOLVING FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

FOR THE YEARS ENDED JUNE 30, 2000 AND 2001

	<u>FY 00</u>	<u>FY 01</u>
<u>Revenues</u>		
Interest Earned - Loans	\$1,551,415	\$856,277
Interest Earned - Fund Balance	1,708,738	2,680,339
Total Revenue	<u>\$3,260,153</u>	<u>\$3,536,616</u>
<u>Expenses</u>		
Program Administration:		
Personnel	\$245,114	\$218,491
Indirect Expense	96,070	85,042
Travel	5,061	4,106
Operating Expense	26,432	26,322
Total Expenses	<u>\$372,677</u>	<u>\$333,961</u>
Net Revenue	<u>\$2,887,476</u>	<u>\$3,202,655</u>
Retained Earnings at Beginning of Year	<u>\$6,475,854</u>	<u>\$9,363,330</u>
Retained Earnings at End of Year	<u><u>\$9,363,330</u></u>	<u><u>\$12,565,985</u></u>

The accompanying notes are an integral part of these financial statements.

**STATE OF IDAHO - DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2000 AND 2001**

EXHIBIT C

	<u>FY 00</u>	<u>FY 01</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Loan Cash Flows:		
Cash Received - Loan Interest Repayments	\$882,587	\$1,136,196
Cash Received - Loan Principal Repayments	1,493,788	16,197,498
Loan Disbursements to Communities	<u>(13,606,349)</u>	<u>(11,004,240)</u>
Subtotal Loan Cash Flows	<u>(11,229,974)</u>	<u>\$6,329,454</u>
Other Operating Cash Flows:		
Cash Payments - Administrative Expenses	(372,918)	(331,973)
Cash Provided (Used) - Increase/(Decrease) in Amount Due to DEQ Fund	<u>(70,102)</u>	<u>5,659</u>
Subtotal Other Cash Flows	<u>(443,020)</u>	<u>(326,314)</u>
Net Cash from (for) Operating Activities	<u>(11,672,994)</u>	<u>\$6,003,140</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
Cash Received from EPA	\$11,707,809	\$9,442,125
Cash Received from State Match	<u>2,341,561</u>	<u>1,888,425</u>
Net Cash Provided by Non-Capital Financing Activities	<u>\$14,049,370</u>	<u>\$11,330,550</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Cash Received - Interest on Fund Balance	<u>\$1,784,347</u>	<u>\$2,330,326</u>
Net Cash Provided by Investing Activities	<u>\$1,784,347</u>	<u>\$2,330,326</u>
Net Increase/(Decrease) in Cash	\$4,160,723	\$19,664,016
Cash Balance - Beginning of Year	<u>33,304,670</u>	<u>37,465,393</u>
Cash Balance - End of Year	<u><u>\$37,465,393</u></u>	<u><u>\$57,129,409</u></u>

**RECONCILIATION OF INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES FOR THE
YEAR ENDED JUNE 30, 2001**

Net Revenue	\$2,887,476	\$3,202,655
Adjustments to Reconcile Income to Net Cash Provided by Operating Activities:		
Interest Earned - Fund Balance	(1,708,738)	(2,680,339)
Change in assets and liabilities:		
Decrease in Interest Receivable Loans	(601,710)	279,919
Decrease in Loans Receivable	(12,179,678)	5,193,254
Increase in Other Payable	(242)	1,989
Increase in Due to DEQ Fund	<u>(70,102)</u>	<u>5,662</u>
Total Adjustments	<u>(14,560,470)</u>	<u>\$2,800,485</u>
Net Cash Provided (Used) by Operating Activities	<u>(11,672,994)</u>	<u>\$6,003,140</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE #1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Clean Water State Revolving Fund (Fund) presents its financial statements as an enterprise fund. The State's central accounting system records transactions on a cash basis of accounting. The Fund's financial records have been converted as necessary to the accrual basis. The accrual basis of accounting requires recording revenues when earned, and expenses when liabilities are incurred. For this fund type, the State has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Cash and Cash Equivalents

Pursuant to Idaho Code, all cash in the Fund is deposited with the State Treasurer's Office for investment by the State Treasurer. Therefore, management of the Fund does not have any control over investment of excess cash, and these financial statements consider all funds deposited with the Treasurer to be cash or cash equivalents, regardless of the actual maturities of the underlying investments. The Fund receives interest earnings monthly from the State Treasurer's Office. This is the source of revenue entitled "Interest Earned-Fund Balance."

Idaho Code requires that all cash in the Fund be perpetually appropriated for program purposes.

Fixed Assets

Fixed assets are generally defined as land, land improvements, buildings, fixtures, equipment, and property under construction. The only fixed asset of the Fund is equipment, such as computers.

The Fund's asset capitalization policy is in accordance with the U. S. Office of Management and Budget *Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments*. Assets having a useful life of more than one year and an acquisition cost of \$5,000 or more, are capitalized. Depreciation is computed using the straight-line method over the assets' estimated useful life. No fixed

assets were bought or sold during the audit period. Other owned assets were fully depreciated in prior periods.

Loans Receivable and Interest Capitalization

Loan funds are disbursed to local agencies as the agencies incur costs for the purposes of the loan and request loan disbursements from the Fund. Typically, interest is calculated from the date loan funds are paid. After final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period. At the loan closing, the loan recipient is given the opportunity to pay off any accrued interest during the construction phase or to capitalize interest into the loan principal, subject to the available debt capacity of the loan recipient as stated in the loan award.

Management considers all loans to be fully collectible, therefore, no allowance for uncollectible accounts is made.

Indirect Costs – Specific Fund Liabilities

Certain liabilities, such as compensated absences, pension plan obligations, and commitments under non-capitalized (operating) leases, are obligations of the entire Idaho Department of Environmental Quality (DEQ), and the Fund receives an allocation of these costs, either through direct expenses incurred or through the application of a negotiated indirect rate.

The Fund does not have any full-time employees. Instead, DEQ charges the Fund for specific labor costs spent directly on Fund activities by DEQ employees. Therefore, for the year ended June 30, 2001, the Fund does not have separate, specific liabilities for compensated absences, pension plan obligations, or commitments under non-capitalized (operating) leases, nor does it have any encumbrances.

Note Disclosures

The guidelines set forth by the EPA do not require some of the disclosures required by GAAP. However, all note disclosures required by GAAP are included in the State's *Comprehensive Annual Financial Report (CAFR)*. The Fund is included as part of the *CAFR*, which may be obtained from the State Controller's Office, 700 West State Street, Boise, Idaho 83720.

Contributed Capital

In accordance with generally accepted accounting principles, only funds actually received from the U.S. Environmental Protection Agency (EPA) and the State for the capitalization of the Fund are recorded as contributed capital.

State Match

Under Idaho Code, the State match is perpetually appropriated from the Water Pollution Control Fund. The State is only required to deposit a cash match into the Fund when an actual cash draw from the EPA is made.

Organization of the Fund

The Fund was established pursuant to Title VI of the Federal Water Quality Act of 1987 (Act). The Act established the Fund to replace the construction grants program to provide loans at reduced interest rates in order to finance construction of publicly owned water pollution control facilities. Instead of making grants to communities that pay for a portion of building wastewater treatment facilities, the Fund provides a flexible financing source that can be used for a variety of pollution-control projects. Loans made by the Fund must be repaid within 20 years, and all repayments, including interest and principal, must be returned to the Fund. The money in the Fund is to be used for eligible purposes in perpetuity.

The EPA is in the process of capitalizing the Fund through a series of grants which began in 1989. The State is required to provide an additional 20% of the federal capitalization grant as matching funds in order to receive a grant. As of June 30, 2001, Congress authorized the EPA to award \$89,500,000 in capitalization grants to Idaho. The State is required to contribute \$17,900,000 in matching funds.

The Fund is administered by the DEQ. The Fund does not have any full-time employees. Instead, DEQ charges the Fund for time spent on Fund activities by DEQ employees, and the Fund reimburses the DEQ for such costs. The charges include salaries and benefits of the employees, as well as indirect costs allocated to the Fund based on direct salary costs. Employees charging time to the Fund are covered by State benefits. The Fund is also charged for indirect State costs through the cost allocation plan for general State expenses.

The Fund is included in the State's general-purpose financial statements as an enterprise fund using the accrual basis.

NOTE #2
***CASH AND CASH
EQUIVALENTS***

All cash in the Fund is deposited with the Office of the State Treasurer. The State Treasurer is responsible for the investment of the cash balances of the State in accordance with State laws, and excess cash is invested in a pooled money investment fund. Details of the investments for the pooled fund may be obtained from the State Treasurer. Idaho Code does not require collateralization of deposits. The State Treasurer carries cash and cash equivalents at cost.

In accordance with *GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the State reports certain investments at market value rather than at cost. At June 30, 2001, the State Treasurer's Office reported that the total carrying value, at cost, of the Idaho State Idle Cash Pool was \$908,445,183. The market value at June 30, 2001, was \$911,847,653. This results in an unrealized gain of 0.375% or \$3,402,470 for the year ended June 30, 2001.

As a result, an unrealized gain of 0.375% or \$214,235 was recorded based on the June 30, 2001 carrying value of \$57,129,409 for the Fund's invested cash and is included in the account. Comparable information for the year ended June 30, 2000 was not available.

NOTE #3
LOANS RECEIVABLE

Extent, Nature, and Terms of Financial Instruments

The Fund makes loans to qualified agencies for projects that meet eligibility requirements of the Act. Loans are financed by capitalization grants, State match, and revolving funds. Stated interest rates on loans vary between 4% and 4.5% and are generally repaid over 20 years, starting within one year of project completion.

Collateral

At loan closing, the State receives collateral (typically a sewer revenue bond, local improvement district bond, or promissory note) from the borrower. As of June 30, 2001, the State Treasurer's Office held \$22,048,180 (at original face value) in bonds and \$8,896,988 (at original face value) in promissory notes as collateral for the Fund.

Loans by Category

Loans receivable at June 30, 2001 are:

	Loan Authorized	Principal Repayments	Remaining Commitment	Receivable Balance
Completed Projects	\$68,248,876	\$44,523,180	\$0	\$23,725,696
Projects in Progress	<u>49,038,848</u>	<u>0</u>	<u>25,171,603</u>	<u>23,867,245</u>
Totals	<u>\$117,287,724</u>	<u>\$44,523,180</u>	<u>\$25,171,603</u>	\$47,592,941
Less: Amount Due Within 1 Year				<u>1,416,399</u>
Loans Receivable Net of Current Maturities				<u>\$46,176,542</u>

The projected principal repayments in subsequent years are:

Year Ending June 30	Amount
2002	\$1,416,399
2003	1,977,616
2004	2,347,370
2005	2,444,459
2006	2,518,319
Thereafter	<u>36,888,778</u>
Total Loan Receivable	<u>\$47,592,941</u>

Major Loans to Local Agencies

As of June 30, 2001, the Fund had made loans to the agencies listed below that, in aggregate, exceeded \$4 million. The outstanding loan balance represents approximately 65% of the total loans receivable.

Local Agency	Authorized Loan Amount	Outstanding Balance
City of Boise	\$23,995,479	\$433,700
City of Caldwell	10,000,000	0
City of Moscow	10,000,000	1,278,602
City of Pocatello	8,622,654	6,099,125
City of Twin Falls	8,500,000	6,428,426
City of Coeur d'Alene	7,963,961	5,874,789
North Lake Sewer and Water District	7,673,000	7,138,100
South Coeur d' Alene River Sewer District	5,600,000	302,248
City of Rexburg	5,000,000	3,346,965
City of Hailey	4,500,000	0
Totals	<u>\$91,855,094</u>	<u>\$30,901,955</u>

The authorized loan amount includes both completed projects and projects in progress. As of June 30, 2001, principal repayments on completed projects by the above agencies were \$41,073,435, and remaining amounts to be disbursed on projects in progress were \$19,879,704.

NOTE #4

INTEREST RECEIVABLE

The interest rate on loans varies between 4% and 4.5% and is generally repaid over 20 years starting within one year of project completion. Details of loan interest receivable as of June 30, 2001 are:

Interest Receivable by Category	
Completed Projects	\$337,866
Projects in Progress	<u>416,352</u>
Total Interest Receivable	<u>\$754,218</u>

NOTE #5

INTERFUND PAYABLE

On June 30, 2001, the DEQ Fund was owed \$34,329 by the Clean Water State Revolving Fund program. Money from the DEQ Fund is used to pay for administrative costs.

NOTE #6

CONTINGENCIES AND SUBSEQUENT EVENTS

The Fund is exposed to various risks of loss related to torts, asset thefts, errors or omissions, injuries to State employees while performing Fund business, or acts of

God. The Fund maintains insurance (through the State Department of Administration, Bureau of Risk Management) for all risks of loss. The cost of insurance is included in the indirect costs charged to the Fund. There have not been any claims against the Fund since its inception in 1989.

Subsequent to June 30, 2001, the following events occurred:

- A. On August 29, 2001, the EPA awarded the 2001 Clean Water State Revolving Fund capitalization grant to the State. The grant provides \$6,496,100 (of which \$6,236,256 will be available for loans and \$259,844 for Fund administration) of additional contributed capital from the EPA and \$1,299,220 of additional contributed capital from the State.
- B. On August 28, 2001, the City of Pocatello signed a new loan agreement for \$5,850,000.

NOTE #7
CONTRIBUTED CAPITAL
AND FUND BALANCE

The Fund is capitalized by EPA grants authorized by Title VI of the Act, and by State matching funds. All funds drawn are recorded as contributed capital from the EPA and the State. As of June 30, 2001, the EPA has awarded capitalization grants of \$83,051,515 to the State, of which \$68,286,095 has been drawn for loans and administration of the Fund. The State has provided the required matching funds of \$13,657,219. The following schedule summarizes the capitalization grants awarded by federal fiscal year, amounts drawn on each grant as of the balance sheet date, and balances available for future loan disbursements.

Year	EPA Grant Amount	Total Draws at June 30, 2000	Draws During SFY 2001	Total Draws at June 30, 2001	Balance at June 30, 2001
1989	\$4,577,200	\$4,577,200	\$0	\$4,577,200	\$0
1990	4,738,000	4,738,000	0	4,738,000	0
1991	10,343,215	10,343,215	0	10,343,215	0
1992	9,534,900	9,534,900	0	9,534,900	0
1993	9,431,000	9,431,000	0	9,431,000	0
1994	5,813,800	5,813,800	0	5,813,800	0
1995	6,007,800	6,007,800	0	6,007,800	0
1996	6,318,400	6,318,400	0	6,318,400	0

1997	6,576,800	6,576,800	0	6,576,800	0
1998	6,577,300	4,944,980	1,632,320	6,577,300	0
1999	6,577,900	0	6,577,900	6,577,900	0
2000	<u>6,555,200</u>	<u>0</u>	<u>1,231,905</u>	<u>1,231,905</u>	<u>5,323,295</u>
Totals	<u>\$83,051,515</u>	<u>\$68,286,095</u>	<u>\$9,442,125</u>	<u>\$77,728,220</u>	<u>\$5,323,295</u>

As of June 30, 2000 and 2001, the State match contributions were:

	Total Appropriated State Match	Total Match provided at June 30, 2000	State Match provided in FY 2001	Total Match provided at June 30, 2001	Available State Match Balance at June 30, 2001
Idaho	\$16,610,303	\$13,657,219	\$1,888,425	\$15,545,644	\$1,064,659

April 30, 2002

Independent Auditor's Report on Compliance and
Internal Control Over Financial Reporting Based on
an Audit of the Financial Statements Performed in
Accordance with *Government Auditing Standards*

C. Stephen Allred, Director
Idaho Department of Environmental Quality
Statehouse Mail

We have audited the financial statements (Exhibits A, B, and C) of the Idaho Clean Water State Revolving Fund as of and for the years ended June 30, 2000 and 2001, and have issued our report thereon dated April 30, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Idaho Clean Water State Revolving Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Idaho Clean Water State Revolving Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a

relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the Idaho Department of Environmental Quality, Clean Water State Revolving Fund, the U.S. Environmental Protection Agency, and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Charles Lindeen, CPA, CFE
Legislative Audits

**STATE OF IDAHO - DEPARTMENT OF ENVIRONMENTAL QUALITY
 CLEAN WATER STATE REVOLVING FUND
 BALANCE SHEET - PROGRAM BASIS
 AT JUNE 30, 2000 AND 2001**

EXHIBIT D

ASSETS

	<u>June 30, 2000</u>	<u>June 30, 2001</u>
<u>Current Assets</u>		
Cash	\$37,465,393	\$57,129,409
Interest Receivable - Fund Balance	66,672	416,683
Interest Receivable - Loans	951,790	754,218
Loans Receivable	1,282,494	1,416,399
Undisbursed Federal Grant	8,210,220	5,323,296
Undisbursed State Match	1,642,044	1,064,660
Total Current Assets	<u>\$49,618,613</u>	<u>\$66,104,665</u>
<u>Long Term Assets</u>		
Interest Receivable - Loans	\$82,349	\$0
Loans Receivable	<u>51,503,701</u>	<u>46,176,542</u>
Total Long Term Assets	<u>\$51,586,050</u>	<u>\$46,176,542</u>
 TOTAL ASSETS	 <u><u>\$101,204,663</u></u>	 <u><u>\$112,281,207</u></u>

LIABILITIES AND FUND EQUITY

<u>Current Liabilities</u>		
Due to DEQ Fund	\$28,666	\$34,329
Other Current Liabilities	17,087	19,075
Loans Payable	<u>17,076,388</u>	<u>15,896,115</u>
Total Current Liabilities	<u>\$17,122,141</u>	<u>\$15,949,519</u>
<u>Long Term Liabilities</u>		
Loans Payable	<u>\$5,942,775</u>	<u>\$9,275,488</u>
Total Long Term Liabilities	<u>\$5,942,775</u>	<u>\$9,275,488</u>
<u>Fund Equity</u>		
Contributions from EPA	\$76,496,316	\$83,051,515
Contributions from State	15,299,264	16,610,303
Reserve for Undisbursed Commitments	(23,019,163)	(25,171,603)
Fund Balance	<u>9,363,330</u>	<u>12,565,985</u>
Total Fund Equity	<u>\$78,139,747</u>	<u>\$87,056,200</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u><u>\$101,204,663</u></u>	 <u><u>\$112,281,207</u></u>

**STATE OF IDAHO - DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND
BALANCE SHEET - PROGRAM BASIS
AT JUNE 30, 2000 AND 2001**

EXHIBIT E

	<u>FY 00</u>	<u>FY 01</u>
<u>Reconciliation to GAAP Balance Sheet</u>		
Total Assets - Program Basis	\$101,204,663	\$112,281,207
Less Undisbursed Federal Grant	(8,210,220)	(5,323,295)
Less Undisbursed State Match	(1,642,044)	(1,064,659)
Total Assets - GAAP Basis	<u>\$91,352,399</u>	<u>\$105,893,253</u>
 Total Liabilities - Program Basis	 \$23,064,916	 \$25,225,007
Less Loans Payable	(23,019,163)	(25,171,603)
Total Liabilities - GAAP Basis	<u>\$45,753</u>	<u>\$53,404</u>
 Total Fund Equity - Program Basis	 \$78,139,747	 \$87,056,200
Plus Reserve for Undisbursed Commitments	23,019,163	25,171,603
Less Undrawn Federal Grant	(8,210,220)	(5,323,295)
Less Undrawn State Match	(1,642,044)	(1,064,659)
Total Fund Equity - GAAP Basis	<u>\$91,306,646</u>	<u>\$105,839,849</u>
 Total Liabilities and Fund Equity - GAAP Basis	 <u>\$91,352,399</u>	 <u>\$105,893,253</u>

NOTES TO SUPPLEMENTAL INFORMATION

NOTE #1

SUPPLEMENTARY PROGRAM BASIS BALANCE SHEET

A program basis balance sheet is presented as supplementary information at management's request. The purpose of this balance sheet is not intended to be a presentation in conformity with generally accepted accounting principles (GAAP), but rather to allow the reader of the financial statements an alternate picture of the total available resources and obligations of the Fund on June 30, 2000 and 2001.

The program basis balance sheet includes assets, liabilities, and contributed capital not shown on the GAAP balance sheet. Specifically, the program basis balance sheet includes: (1) in assets – the amount of available federal grant and State match not actually received in cash; (2) in liabilities – the amount of undisbursed loan commitments; and (3) in fund equity – the total amount of awarded federal grant and State match.

Note #3 of the financial statements mentions that the Fund has \$25,171,603 in remaining commitment for projects in progress in the "loans by category section." However, this amount fails to meet all the criteria for classification as a liability in accordance with GAAP. The *Statement of Financial Accounting Concepts No. 6* states: "Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer or provide services to other entities in the future as a result of past transactions or events." Specifically, the loan recipient must have incurred an eligible cost (prior to June 30, 2001) and then have requested a loan disbursement within a reasonable time of the balance sheet date in order to be counted as a liability according to GAAP.

Note #7 of the financial statements shows that the Fund had an available EPA grant balance of \$5,323,295 and State

match balance of \$1,064,659. Together, the amounts represent the very resources that management intends to use to meet the next \$6,387,954 in loan disbursements. Again, strict application of GAAP prevents the inclusion of available federal grant and State match as assets until the conditions of paragraph 3 above are met.

The primary users of the financial statements (management and EPA) believe that the information in Exhibits D and E provides a comparison of total resources against total obligations to determine money available for additional loans.

April 30, 2002

Independent Auditor's Report on Compliance with
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance with OMB Circular A-133

C. Stephen Allred, Director
Idaho Department of Environmental Quality
Statehouse Mail

Compliance

We have audited the compliance of the Idaho Clean Water State Revolving Fund with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the years ended June 30, 2000 and 2001. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Fund's compliance with those requirements.

In our opinion, the Idaho Clean Water State Revolving Fund complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the years ended June 30, 2000 and 2001.

Internal Control Over Compliance

The management of the Idaho Clean Water State Revolving Fund is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Fund's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Idaho Department of Environmental Quality, Clean Water State Revolving Fund, the U.S. Environmental Protection Agency, and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Charles Lindeen, CPA, CFE
Legislative Audits

APPENDIX

HISTORY AND STATUTORY AUTHORITY

The Idaho Clean Water State Revolving Fund was established pursuant to Title VI of the Federal Clean Water Act of 1987. The Fund has been capitalized by a series of grants from the U.S. Environmental Protection Agency (EPA) beginning in 1989. As of June 30, 2001, Congress had authorized the EPA to award \$89,500,000 in grants to the State of Idaho. The State is required to contribute 20% (\$17,900,000) in matching funds.

PURPOSE

The Act established the State Revolving Fund Program to provide loans at reduced rates to finance the construction of publicly owned water pollution control facilities. Instead of making grants to communities that pay for a portion of building wastewater facilities, the Fund provides a flexible financing source that can be used for a variety of pollution control projects. Loans made by the Fund must be repaid within 20 years, and all repayments, including interest and principal, must remain in the Fund.

ORGANIZATION AND STAFFING

The Fund is administered by the Department of Environmental Quality (DEQ). The Fund has no full-time employees, using instead DEQ employees on a part-time basis. The part-time positions include the Fund's bureau chief, senior accountant, loan program specialist, water quality analyst, four regional managers, and several staff and technical engineers.

FUNDING

Requested funds are initially received from the EPA and deposited in DEQ Fund 0225, which is the fund used for all federal DEQ receipts. A transfer is then made to the Clean Water State Revolving Fund 0529. All of Fund 0529 is reflected in these financial statements, with the exception of Fund Detail 0529-11, which is used for State-only projects and State match. All administrative funds are charged against Fund 0225, which are later reimbursed by Fund 0529.